

Message Text

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C O N F I D E N T I A L TEL AVIV 0171

E.O.11652: GDS
TAGS: ENRG, IS, EG
SUBJ: NEPTUNE OIL COMPANY; GULF OF SUEZ OPERATIONS

REF: 77 TEL AVIV 11256

1. SUMMARY. IN JAN 4 CALL ON AMBASSADOR, MESSRS. HOUCK, BARNEY AND THOMAS PROVIDED MORE INFORMATION ABOUT NEPTUNE'S OPERATIONS AND FUTURE PROSPECTS IN GULF OF SUEZ. THEY STRESSED THEIR VIEW THAT ANY CONFLICT WITH AMOCO MUST BE RESOLVED AS A POLITICAL, RATHER THAN A LEGAL, MATTER AND ASKED THAT USG BE EVEN-HANDED IN THIS CONFLICT BETWEEN TWO AMERICAN FIRMS. END SUMMARY.

2. MR. HOUCK SAID THAT NEPTUNE HAD STARTED OPERATIONS IN ITS GOI CONCESSION "WITH ITS EYES OPEN", IN THE BELIEF THAT THE FIRM COULD CONTINUE PROFITABLE OPERATIONS IN CONDITIONS OF WAR OR CONTINUATION OF THE STATUS QUO, WHILE THE THIRD POSSIBILITY, PEACE, OFFERED A CHANCE OF SOME FORM OF CONTINUED OPERATIONS, WITH GOI HELP, UNDER EGYPTIAN CONTRACT. HOUCK SAID THAT NEPTUNE'S GOI CONTRACT HAD DELIBERATELY BEEN MADE SIMILAR TO EGYPTIAN CONTRACTS, WITH GOI GETTING 75 PERCENT OF PROFITS AND TAKING TITLE TO THE OIL AT THE WELL HEAD, BUYING FROM NEPTUNE AT WORLD PRICES. NEPTUNE WAS SOLELY A CONTRACTOR TO ISRAEL NATIONAL OIL COMPANY.

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3. HOUCK SAID THAT ANY NEPTUNE-AMOCO CONFLICT WOULD HAVE TO BE RESOLVED ON A POLITICAL, RATHER THAN LEGAL BASIS. THIS MEANT, HE SAID, THAT GOI AND GOE COULD MAKE WHATEVER ARRANGEMENT THEY CHOSE, WITHOUT REGARD TO THE WISHES OF THE OIL COMPANIES, ALTHOUGH HE REALIZED THAT AMOCO WOULD HAVE MUCH MORE INFLUENCE WITH GOE THAN NEPTUNE.

4. IN ANY CASE, THEY SAID, THE LEGAL MERITS ARE NOT ALL AMOCO'S. ACCORDING TO MFA LEGAL ADVISOR ROSENNE, THE MILITARY AUTHORITY OF THE GOI HAD BEEN THE TEMPORARY SOVEREIGN SINCE 1967, SO AMOCO'S 1974 GOE CONCESSION WAS NOT VALID. MOREOVER, BARNEY SAID THAT THE 1974 AMOCO CONCESSION STIPULATES THAT IT SHALL BECOME EFFECTIVE ONLY WHEN EFFECTIVE CONTROL OVER THE TERRITORY CONCERNED IS RETURNED TO GOI.

5. BARNEY CONCEDED THAT IF THE GOE DECLINED BEGIN'S PLANNED REQUEST THAT THE NEPTUNE CONCESSION BE CONTINUED, (REFTEL) THE ALMA FIELD TO EGYPT AND NEPTUNE WOULD HAVE NO CLAIM AGAINST THE GOI. HOWEVER, THEY THOUGHT THIS UNLIKELY AND, IN ANY EVENT, NOTED THAT THERE WAS A POSSIBILITY OF SOME COMPENSATION ALONG THE LINES OF THE ABU RODEIS PRECEDENT.

6. BARNEY SAID THAT THE ALMA FIELD WOULD START PRODUCTION ABOUT MARCH 1, REACHING A PROVEN 60,000 BARRELS PER DAY BY THE END OF 1978 AND RISING TO 150,000 TO 200,000 WITHIN TWO YEARS. HE SAID THAT THE OIL WOULD INITIALLY BE TANKERED TO EILAT, BUT AT 150,000 BARRELS PER DAY A PIPELINE TO EILAT COULD BE JUSTIFIED. HE SAID THAT THE GOI CONTINUES TO GIVE STRONG ENCOURAGEMENT TO NEPTUNE AND THAT, IN ADDITION TO THE ALMA FIELD, THE FIRM HAS STARTED ANOTHER WELL FARTHER NORTH. HE DISPLAYED A MAP SHOWING ELEVEN FAVORABLE SITES FOR EXPLORATION ALONG THE EASTERN SIDE OF THE GULF FROM ALMA II UP TO THE LATITUDE OF
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RAS GHARIB.

7. IN RESPONSE TO BARNEY'S QUERY, THE AMBASSADOR SAID THAT USG WAS NOT ENTHUSIASTIC ABOUT GETTING IN THE MIDDLE OF ANY CONFLICT BETWEEN TWO U.S. FIRMS, WHICH COULD BETTER BE LEFT TO NEGOTIATIONS BETWEEN GOI AND GOE. THE AMBASSADOR NOTED THAT THE DEPARTMENT'S LEGAL OPINION GOES FAR BEYOND CONFLICTING OIL CLAIMS TO THE QUESTION OF THE RIGHTS OF AN OCCUPYING POWER.

8. AMBASSADOR TOOK OPPORTUNITY OF A MEETING WITH BEGIN JANUARY 5 ON ANOTHER SUBJECT TO ASK HIM DIRECTLY ABOUT OIL QUESTION. HE CONFIRMED THAT:

- A) SUBJECT NOT TOUCHED ON AT ISMALIA MEETING;
- B) GOI HAD ENCOURAGED NEPTUNE TO MOVE AHEAD FULL SPEED TO DEVELOP THE FIELD;
- C) WHEN PROPER MOMENT CAME IN ISRAELI/EGYPTIAN NEGOTIATIONS, ISRAEL WOULD PROPOSE THAT THE GOE CONFIRM OR IN SOME WAY ESPOUSE THE NEPTUNE CONCESSION SO AS TO PERMIT NEPTUNE TO CONTINUE OPERATING AND THAT ISRAEL CONTINUE TO PURCHASE THE OIL AT WORLD MARKET PRICES.

BOTH BEGIN AND HOUCK MADE POINT THAT EGYPT NOW A NET CRUDE OIL EXPORTER IN ANY EVENT, AND THIS ARRANGEMENT WOULD BE VERY

BENEFICIAL TO BOTH ISRAEL AND EGYPT.
LEWIS

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